

**DEPARTMENT OF TRANSPORTATION**  
**AUDITS AND INVESTIGATIONS**

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March 11, 2008

Vincent J. Harris, Executive Director  
Stanislaus Council of Governments  
900 H Street, Suite D  
Modesto, CA 95354

Re: Stanislaus Council of Governments  
Audit of Indirect Cost Rate Proposal FY 2007/08  
File No: P1190-0668

Dear Mr. Harris:

We have audited the Stanislaus Council of Governments' (StanCOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The StanCOG management is responsible for the fair presentation of the ICAP. The StanCOG proposed an indirect cost rate of 69.38% of total direct salaries and wages, plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of StanCOG. Therefore, we did not audit and are not expressing an opinion on StanCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by StanCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the

OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of StanCOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a review of StanCOG's single audit report for the fiscal years ended June 30, 2006, inquiries of StanCOG personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2006 and prior audit field work performed by the Department in May 2007. In addition, our audit included a limited review of the Overall Work Program (OWP). We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations are listed below. A copy of our findings and recommendations was provided to StanCOG on March 5, 2008, but StanCOG did not provide a response.

## **AUDIT RESULTS**

Based on audit work performed, StanCOG's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 69.38% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

### **Audit Findings**

#### **Finding 1**

We noted that StanCOG's OWP Work Element (WE) 011 includes activities that are administrative in nature and should be treated as indirect costs. Specifically, technical advisory meetings, alliance and CalCOG meetings, regional and interregional issues along with planning committee, program working group, planning commissioner workshops and meetings, equal rights injury coordination meetings, and general administrative activities that benefit all programs/projects of StanCOG should be treated as indirect costs. Directly charging administrative activities to a primarily federally funded work element will result in the federal government paying a disproportionate share of indirect costs. Additionally, we noted activities related to the StanCOG's Board, such as policy board meetings and workshops and executive committee meetings were included in WE 011. The time and expenses incurred by or in support of the Policy Board are considered unallowable general governmental expenses and should not be charged to federal or State funding sources. Because StanCOG does not segregate general government activities from other allowable

activities in the OWP, expenses incurred in support of unallowable activities may be charged to federal and State funding sources.

OMB A-87, Attachment E, Paragraph A.1 defines indirect costs as those incurred for common or joint purposes and benefiting more than one cost objective. OMB A-87 Attachment B, #19 states in part, that the general costs of government are unallowable, including the salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction.

**Recommendation:**

We recommend that StanCOG revise its fiscal year 2007/08 OWP so that indirect and unallowable activities are segregated from other allowable, direct activities. We further recommend that StanCOG separately account for the time and expenses incurred by or in support of its Governing Board from other allowable activities to ensure that such costs are not included in requests for reimbursement from federal or State funding sources.

**Finding 2**

StanCOG's Finance Director stated that un-reimbursed direct project costs may have been identified as indirect costs in the StanCOG audit for fiscal year ended June 30, 2005. On June 13, 2007, the StanCOG's Finance Director expressed concern regarding discrepancies between the draft audited financial statements and the StanCOG figures. As of December 11, 2007, StanCOG staff was not able to determine the appropriate amounts of direct and indirect costs for fiscal year ended June 30, 2005.

OMB A-87, Attachment A, #C 3c states in part, that any cost allocable to a particular Federal award or cost objective may not be charged to other Federal awards to overcome fund deficiencies. Additionally, #E1 defines a direct cost as those that can be identified specifically with a particular final cost objective. #F1 defines an indirect cost as those that are incurred for common or joint purposes benefiting more than one cost objective and cannot be readily assigned to cost objectives without disproportionate effort for the benefits received. Further, Attachment E, #A 1 states in part, that a cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

Including direct project costs in the indirect pool does not provide consistent treatment of costs and will improperly inflate the indirect cost rate.

**Recommendation:**

We recommend that StanCOG determine its actual direct and indirect costs for the fiscal year ended June 30, 2005, compare the amounts to those listed in the 2005 Statement of Expenditures – Allocation of Direct and Indirect Costs to determine if an adjustment is required. If an adjustment is necessary, then it should be reflected in the 2009 ICAP carry-forward amount. We will follow-up on this issue when we perform the Fiscal Year 2008-09 ICAP audit.

**Finding 3**

StanCOG does not have an up-to-date procedures manual that reflects its current accounting practices. This is a repeated finding that was initially communicated by our office to StanCOG on December 1, 2005 and again on August 8, 2007. In addition, StanCOG's independent auditor expressed a similar concern as early as December 1, 2003.

The lack of a current accounting manual to which staff may refer, increases the risk of inconsistent application of proper procedures and the possibility of accounting errors.

Title 49 of the Code of Federal Regulations (49 CFR), subpart 18.20(b)(3) states in part, that effective control and accountability must be maintained for assets.

**Recommendation:**

We recommend that StanCOG revise its procedure manual so that current accounting practices are accurately reflected. Failure to revise the procedures manual to current practices may jeopardize future ICAP approvals.

This report is intended solely for the information of the StanCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Barbara Nolan, Auditor, at 916-323-7880 or Amada Maenpaa, Audit Supervisor, at 916-323-7868.



MARYANN CAMPBELL-SMITH  
Chief, External Audits

**Attachments**

c: Pat Robledo, District 10  
Gary Buckhammer, HQ Accounting  
Brenda Bryant, FHWA  
Andrew Knapp, HQ Planning  
Ryan Ong, ORIP District 10

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## Stanislaus Council of Governments

### Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Stanislaus Council of Governments and approved by the Department.

#### **SECTION I: Rates**

<b><u>Rate Type</u></b>	<b><u>Effective Period</u></b>	<b><u>Rate*</u></b>	<b><u>Applicable To</u></b>
Fixed with carry forward	7/01/07 to 6/30/08	69.38%	All Programs

\* Base: Total Direct Salaries and Wages plus fringe benefits

#### **SECTION II: General Provisions**

##### **A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

##### **B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

##### **C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

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**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate of Calculation:**

FY 2008 Budgeted Indirect Costs	\$ 566,577
Carry Forward from FY 2006	<u>64,160</u>
Estimated FY 2008 Indirect Costs	\$ 630,737
FY 2008 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 909,153
FY 2008 Indirect Cost Rate	69.38%

**CERTIFICATION OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Stanislaus Council of Governments

Signature: Vincent J. Harris

Reviewed, Approved and Submitted by:

Name of Official: Vincent J. Harris

Title: Executive Director

Date of Execution: February 27, 2008

Signature: Vincent Canales, Jr.

Prepared by:

Name of Official: Vincent Canales, Jr.

Title: Finance Director

Telephone No.: (209) 558-7830

#### INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

MaryAnn G. Smith  
Signature

Reviewed and Approved by:

MaryAnn Campbell-Smith  
Name of Audit Manager

Title: Chief, External Audits

Date: 3/11/08

Phone Number: 916 323-7105

Barbara Nolan  
Signature

Reviewed and Approved by:

Barbara Nolan  
Name of Auditor

Title: Auditor

Date: 3/11/08

Phone Number: 916 323-7880

**STANISLAUS COUNCIL OF GOVERNMENTS  
PROJECTED 2007/08 BUDGET  
FOR THE INDIRECT COST PLAN**

	<u>DIRECT COSTS</u>	<u>INDIRECT COSTS</u>	<u>UNALLOWABLE COSTS</u>	<u>TOTAL BUDGET</u>
SALARIES	663,484	227,200	10,378	901,062
FRINGE BENEFITS	245,669	102,602	5,121	353,392
<b>TOTAL SALARIES AND BENEFITS</b>	<u>909,153</u>	<u>329,802</u>	<u>15,499</u>	<u>1,254,454</u>
 CONTRACTS	 <u>711,959</u>	 <u>21,087</u>	 <u>0</u>	 <u>733,046</u>
OTHER COSTS:				
ADMINISTRATIVE SERVICES		5,160		5,160
COMMUNICATIONS		7,768		7,768
CONFERENCES, SEMINARS & TRAVEL	18,000	0	8,000	26,000
COUNTY DEPARTMENT COSTS ALLOCATED		3,700		3,700
DATA PROCESSING		25,630		25,630
EMPLOYEE CLASSIFICATION STUDY		0		0
EQUIPMENT MAINTENANCE		200		200
EQUIPMENT PURCHASE *		19,500		19,500
EQUIPMENT RENTS & LEASES		13,670		13,670
FIXED ASSETS **		0		0
INSURANCE		20,000		20,000
MEMBERSHIPS		0	9,300	9,300
OFFICE EXPENSE		23,800		23,800
POSTAGE/MAIL SERVICES		4,225		4,225
PRINTING	12,545	505		13,050
PUBLICATIONS/LEGAL NOTICES	2,400	1,000		3,400
STRUCTURES & GROUNDS MAINTENANCE		1,050	900	1,950
STRUCTURES & GROUNDS RENTS & LEASES		89,480		89,480
CONTINGENCIES			50,000	50,000
EXIGENCIES			15,000	15,000
 SUBTOTAL OTHER COSTS	 <u>32,945</u>	 <u>215,688</u>	 <u>83,200</u>	 <u>331,833</u>
 TOTAL BUDGET	 <u>1,654,057</u>	 <u>566,577</u>	 <u>98,699</u>	 <u>2,319,333</u>
 DEPRECIATION		0		
 <b>TOTAL INDIRECT COST</b>		<b>566,577</b>		

\* Purchases of less than \$5,000 each

\*\* Purchases of \$5,000 or greater each (none anticipated in FY 2007/08)

ATTACHMENT 2

StanCOG	2005	2006	2007	StanCOG RATE COMPUTATION:	
APPROVED INDIRECT RATE	45.99%	45.27%	94.84%	PROPOSED INDIRECT RATE	69.38%
INDIRECT CARRY FORWARD				INDIRECT RATE	
CARRY FORWARD	(99,105)	(68,702)	210,498	UNDER RECOVERY CARRY FORWARD	64,160
INDIRECT COSTS PER SINGLE AUDIT	540,881	399,603	SINGLE AUDIT	ESTIMATED INDIRECT COSTS	566,577
TOTAL INDIRECT COSTS	441,776	330,901	NOT YET COMPLETED	TOTAL INDIRECT COSTS	630,737
RECOVERED COSTS					
(SALARIES * APPROVED RATE)	231,278	266,741			
INDIRECT CARRY FORWARD	210,498	64,160			
DIRECT SALARIES PER SINGLE AUDIT	502,735	589,222	SINGLE AUDIT	BASE	
			NOT YET COMPLETED	2007/08 ESTIMATED DIRECT SALARIES PLUS FRINGE BENEFITS	909,153